Discussion week 5 question 1 stock options chapter 8

Finance

STOCK OPTION al Affiliation) A stock option is a contract that transfers privileges from one person to another upon sale of stock. This provides the buyer with a right and not an obligation to buy or sell stock at an agreed price within a certain period or at a specific time. An employee stock option gives the employee a right but not an obligation to buy an exact amount of shares in the company. This is normally at a certain price within a certain period of time. This kind of option differs slightly from other exchange options as they are normally not traded on an exchange. In most cases, the employees also need to wait a specific period before they are able to exercise their option.

Using Wal-Mart Company as an example, the company usually gives options to its employees. Each option covers a maximum of ten years from the time when it is granted. For those who at the time the option is granted own stock which represent 10% of the voting power in stock at the company, the term will not exceed five years. An employee can exercise an option when he gives notice to Wal-Mart and the company receives full payment for the option. An employee can exercise their option when their term ends as long as the option does not have restrictions. This can be done within sixty days. Options are transferable and are disposable to an immediate family; this is a “ Permitted Transfer”. An option cannot is not transferable to another person other than through the “ Permitted Transfer” or by the laws of distribution. The best way that the company can leverage stock options so as to offset employee compensation is by allowing employees to sell, transfer and dispose stock in the open market. This is because many employees see options as being part of their compensation and usually want to exercise them so as to get money. Restricting this to just family members is likely to make the options unattractive to employees. Employees should also be free to exercise the options at any time without following the process of notifying the company. This is because as they are in the process of notifying the company, they may miss out on making profits the moment that the stock prices go up in the stock market.

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